82-2066

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IN THE

Supreme Court Of The United States

October Term, 1982

No.

BIRMINGHAM TRUST NATIONAL BANK,

Petitioner,

v.

VISA, U.S.A., INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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STATEMENT OF QUESTION PRESENTED

Can trademark or service mark priority be bought and sold and the mark validly transferred, where (1) the transferor conveys no *tangible* or *intangible* asset associated with its service, (2) the transferor continues to use the mark as formerly, and (3) the transferee renders a different service to a different class of customers through use of a mark having a different configuration and appearance?

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PARENT COMPANY, SUBSIDIARIES AND AFFILIATES

Birmingham Trust National Bank (now SouthTrust Bank of Alabama, Birmingham) is a subsidiary of SouthTrust Corporation. Other subsidiaries and affiliates of SouthTrust Corporation are as follows:

Jackson Company
SouthTrust Bank of Dothan
SouthTrust Bank of Huntsville
SouthTrust Bank of Mobile
SouthTrust Bank of Marion County
SouthTrust Bank of Calhoun County
SouthTrust Bank of Baldwin County
SouthTrust Bank of Sand Mountain, Boaz
SouthTrust Bank of Montgomery
SouthTrust Bank of the Quad-Cities
SouthTrust Bank of Selma
SouthTrust Bank of Russell County
SouthTrust Bank of Auburn
SouthTrust Bank of Etowah County
SouthTrust Bank of Piedmont
SouthTrust Bank of Tuscaloosa County
SouthTrust Data Services, Inc.
SouthTrust Leasing, Inc.
SouthTrust Financial Services, Inc.
SouthTrust Insurance Agency, Inc.
SouthTrust Life Insurance Company
SouthTrust Mobile Services, Inc.

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The petitioner, Birmingham Trust National Bank ("BTNB") respectfully prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Federal Circuit entered in this action on December 29, 1982.

I.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Federal Circuit dated December 29, 1982 is reported at 696 F.2d 1371 and 216 U.S.P.Q. 649, and appears in the separate Appendix to this Petition at pages 1-12. The opinion of the Trademark Trial and Appeal Board dated September 15, 1981 is reported at 212 U.S.P.Q. 115 and appears in the separate Appendix to this Petition at pages 13-24.

II.

JURISDICTION

The opinion and judgment of the Court of Appeals for the Federal Circuit were entered December 29, 1982. (App. 25). On February 11, 1983, BTNB moved the Court of Appeals to vacate its mandate entered in this cause on January 19, 1983, and to grant an extension of time in which BTNB could file a petition for rehearing or reconsideration. On February 15, 1983, the Court of Appeals granted BTNB's motion to the extent that BTNB was allowed until March 1, 1983 to file a Petition for Rehearing or Reconsideration. On March 1, 1983, BTNB filed its Petition for Rehearing In Banc and Petition for Reconsideration with the Court of Appeals. On March 17, 1983, the Court of Appeals denied BTNB's suggestion for rehearing in banc and petition for reconsideration. (App. 26). Jurisdiction of this Court is invoked under 28 U.S.C. § 1254 (1).

III.

STATUTE

15 U.S.C. § 1060:

> A registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark, . .

IV.

STATEMENT OF THE CASE

This Petition raises fundamental questions as to the meaning and scope of trademark rights, the concept of goodwill and the assignability of trademark rights in the absence of the substantive conveyance of the goodwill of

the business with which the mark is associated. Through this Petition, Birmingham Trust National Bank ("BTNB") requests this Court to review the judgment of the United States Court of Appeals for the Federal Circuit, which reversed the well-reasoned decision of the Trademark Trial and Appeal Board (the "Board") in this action. Before both the Board and the Court of Appeals, the central question was whether VISA, U.S.A., Inc. ("VISA") can defeat BTNB's otherwise prior trademark rights by tacking on the period in which a visually different mark was used in connection with grocery sales by Alpha Beta Company ("Alpha Beta"), a grocery store chain which attempted to assign its mark (as shown at App. 16), to VISA's predecessor, National BankAmericard, Inc.

Alpha Beta began using its mark consisting of the letters "OK" and a design (as shown at App. 16) in its California and Nevada grocery stores in 1970. The mark was placed on identification cards issued to customers who had completed application forms requesting customer identification data (name, address, description, employment, birthdate, etc.) and listing types of checks to be cashed (personal, company payroll, social security, etc.). Upon issuance of the card, a customer's check would be accepted in payment of groceries purchased at the Alpha Beta store, and only that single store, which issued the card. Each card contained the statement "This check cashing card may be presented at any checkout stand of the issuing store shown" and a prominent display of the distinctive words "Alpha Beta" above the extension of the "K" (as shown at App. 16).

In 1976, BTNB developed and instituted a new banking service for its checking account customers in which the bank stood behind checks given by customers to participating business establishments. The service was designated "Check-OK" and symbolized by BTNB's "OK" mark (as

shown at App. 14). Check-OK customers are issued cards, bearing the OK mark, which identify the customers to merchants as having BTNB checking accounts on which BTNB will honor the checks. The customers' checks also bear BTNB's OK mark. The various merchants who contract separately with BTNB are obligated automatically to accept checks (up to $100), presented with the owner's Check-OK card. BTNB, in turn, guarantees the checks to the merchants. The card owner obtains a line of credit and overdraft checking privileges with his card. In addition, the Check-OK card will operate BTNB's automated teller terminals through which the customer can make a number of banking transactions. Merchants who have agreed to automatically accept BTNB checks presented with BTNB Check-OK cards are in all areas of retail trade, including department stores, drug stores, supermarkets, hardware stores, bookstores and specialty stores.

BTNB has promoted its Check-OK banking service through extensive advertising displays and promotional literature, all of which display BTNB's Check-OK and OK marks (as shown at App. 14). BTNB has licensed five of its affiliate banks (which, like BTNB, are subsidiaries of SouthTrust Corporation) to use its Check-OK and OK marks in connection with the Check-OK banking program.

On September 10, 1976, four months after BTNB first used its OK and Check-OK marks, Alpha Beta executed a purported assignment of its OK mark to VISA's predecessor, National BankAmericard, Inc. (hereinafter referred to as "VISA"). The document recites that Alpha Beta

> . . . is using the mark "O.K." as a service mark for check approval services . . .
> [and]
> . . . does hereby assign unto ASSIGNEE all rights, title and interest in and to said mark, all variations thereof,

and designs thereof, together with the goodwill of the business symbolized by the mark and any variations thereof, the registrations thereof, and all causes of action for past infringement.

The above recitation describes all the assets which Alpha Beta purported to transfer. On the same day of this assignment to VISA, VISA and Alpha Beta executed a license agreement which granted Alpha Beta a license to use the "service mark 'O.K.' " "in connection with check approval services for [Alpha Beta's] customers." VISA thereafter radically redesigned Aipha Beta's OK mark (as shown at App. 16) and developed a visually different OK mark (as shown at App. 19). VISA prepared cards bearing its different OK design, which were first issued to customers in November, 1976, six months after BTNB's first use of its Check-OK and OK marks.

The license-back between VISA and Alpha Beta contained important restrictions to insure that Alpha Beta's continued use of the OK mark it had assigned to VISA would not bear any similarity to the use contemplated by VISA of its newly designed mark. Unlike the usual trademark license which imposes upon the licensee certain standards of use to assure uniformity of use between licensor and licensee, the license-back prohibited Alpha Beta from (1) modifying the mark it had been using so that it would not look like the mark VISA planned to use in its banking service, (2) using the mark in a manner similar to VISA's planned use of the mark, and (3) displaying the mark in the manner VISA displayed its redesigned OK mark. As a result, Alpha Beta continued using its OK mark (mark "A") for the convenience of its grocery customers, and VISA (having purportedly purchased mark A and its priority of use) began using a redesigned OK mark (mark "B") in connection with a new banking service.

VISA's banking service is a check guarantee program, whereby some of VISA's member banks have entered into agreements with merchants who, upon receiving proper authorization at the point of sale, may accept the check of a customer having a VISA OK card for either payment for merchandise or for cash. The merchant is assured of payment in the event the customer's check is dishonored by the customer's bank.

On September 20, 1976, VISA filed an application to register the mark "O.K." for the service of providing check cashing guarantee privileges by means of a card. Relying upon use by its purported assignor, Alpha Beta, VISA asserted use of the "O.K." mark since June 1, 1970. On September 23, 1976, BTNB filed applications to register its "CHECK-OK" and "OK" marks respectively for banking services. BTNB asserted use since May 3, 1976 in each application. Subsequently, on December 27, 1977, VISA, pursuant to 15 U.S.C. § 1063, filed an opposition, Opposition No. 60,469, to BTNB's applications for registration. On January 9, 1978, BTNB, also pursuant to 15 U.S.C. § 1063, filed an opposition, Opposition No. 60,500, to VISA's application. These opposition proceedings were consolidated for trial before the Board, pursuant to 15 U.S.C. § 1067.

As noted above, the issue before the Board was whether VISA or BTNB possessed priority in use of the OK mark. VISA alleged use by itself and its predecessor Alpha Beta since a date prior to May 3, 1976, BTNB's date of first use of its OK marks. BTNB alleged that the assignment by Alpha Beta, upon which VISA relies in support of its claim of first use, was invalid and ineffective, and that VISA cannot claim priority based upon Alpha Beta's use.

A. The Decision of The Board

Upon careful consideration of the evidence presented, and after having heard oral arguments on the merits on two occasions, the Board rendered a lengthy and well-reasoned decision that Alpha Beta's attempted assignment of its OK mark was invalid and ineffective, and awarded priority in use to BTNB.

In reaching this conclusion, the Board recognized the fundamental tenet of trademark law that "there is no such thing as a common law property right in a trademark except as a right appurtenant to an established trade or business in connection with which the mark is employed," and thus, "no rights in a trademark can be transferred apart from the business or part of the business which it symbolizes." (App. 20). After noting that this common law rule forms the basis for the provisions of Section 10 of the Trademark Act of 1946, the Board held that "an agreement which purports to assign a mark and the goodwill of the business which it symbolizes, made with or without a transfer of tangible or intangible assets, is not valid *unless the assignee carries on the business of the assignor by using the mark in connection with goods and services which are the same as or substantially similar to those upon which the mark is used by the assignor.*" (App. 21) (Emphasis Added).

The Board looked to whether VISA's use of the OK mark met this test, and made the following findings:

> Visa had no interest whatsoever in using the mark in connection with grocery store check cashing and customer identification card services similar to those rendered by Alpha Beta under the mark. Rather, Visa wanted to use the mark in connection with a banking service in the nature of a check guarantee program, and what Visa needed, and undoubtedly acquired under the agreement, was freedom to use the "OK" de-

> sign mark to identify its check guarantee program without fear of suit by Alpha Beta . . . . it is obvious that the two services are substantially different in nature. The Visa service involves a check guarantee, so that a merchant can cash a card-holding customer's check without hesitation, whereas the Alpha Beta service does not; the Alpha Beta service is available to holders of the Alpha Beta "OK" cards only at Alpha Beta stores, whereas the Visa service is available to holders of Visa "OK" cards at a large variety of participating retail stores; the Alpha Beta program involves only Alpha Beta and its customers, whereas the Visa program involves Visa's member banks, participating merchants, and those customers of the merchant who hold Visa "OK" cards issued by Visa's member banks; and the Alpha Beta service is directed to card-holding Alpha Beta customers, whereas the Visa service is directed both to merchants and to those of their customers who hold Visa "OK" cards. Under the "license back", Alpha Beta remains free to use the "OK" design mark in connection with its service in the same form as before, and Alpha Beta continues to benefit from the goodwill of the business which was symbolized by the mark prior to the purported assignment.

(App. 22-23).

The Board concluded that Alpha Beta's assignment to VISA encompassed no real transfer of Alpha Beta's goodwill, ruling that "while the purported assignment to VISA may appear on its face to meet the requirements of Section 10 for a valid assignment, the surrounding circumstances indicate that it was in essence a transfer in gross and, hence, invalid under Section 10 of the Trademark Act." (App. 23).

Accordingly, the Board awarded priority of use to BTNB and therefore dismissed VISA's Opposition No. 60,469, and sustained BTNB's opposition in Opposition No. 60,500. VISA appealed the Board's decision to the Court of Appeals for the Federal Circuit.

B. The Court of Appeals Opinion

On appeal, the Court of Appeals reversed the decision of the Board. In reaching this conclusion, the Court of Appeals correctly recognized the essential principles of trademark law that trademarks are not separate property rights, trademarks are integral and inseparable elements of the goodwill of the business or services to which they pertain and a trademark may be transferred only in connection with the transfer of the goodwill of which it is a part. (App. 6-7). However, the Court of Appeals essentially held that a *recital* of transfer of goodwill was conclusively adequate, regardless of whether there was any substance to the recital.

Contrary to rulings in other circuits, the Court of Appeals did not require that the assignor of a service mark convey any identifiable asset of its business, *tangible* or *intangible*, other than the mark itself. The Court did not require that the assignee receive from the assignor any substantive indicium of goodwill, apart from the bare mark itself. *The Court did not even require that the assignee provide a service that serves the same function as the assignor's service or which serves the same customers served by the assignor.* The Court *in essence* held that trademark rights exist separate and apart from a business and can be transferred by the transferor's mere recital of transfer of the mark and its goodwill.

V.

REASONS FOR GRANTING THE WRIT

1. The decision below by the influential new Court of Appeals for the Federal Circuit conflicts with important decisions of the Supreme Court and other appellate courts.

Long prior to the Lanham Act, the United States Supreme Court recognized as a fundamental tenet of trade-

mark law that trademarks and service marks have no existence apart from the goodwill of the business associated with the mark and are inseparable from that goodwill. *United Drug Co. v. Rectanus Co.*, 248 U.S. 90, 97 (1918); *Metropolitan National Bank v. St. Louis Dispatch Co.*, 149 U.S. 436, 446 (1893); *Menendez v. Holt*, 128 U.S. 514, 522 (1888). As this Court stated in *United Drug, supra*:

> The asserted doctrine is based upon the fundamental error of supposing that a trademark right is a right in gross or at large, like a statutory copyright or a patent for an invention, to either of which, in truth, it has little or no analogy. *Delaware & H. Canal Co. v. Clark*, 13 Wall. 311, 322, 20 L.ed. 581, 583; *McLean v. Fleming*, 96 U.S. 245, 254, 24 L.ed. 828, 832. There is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed. The law of trademarks is but a part of the broader law of unfair competition; the right to a particular mark grows out of its use, not its mere adoption; its function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his; and it is not the subject of property except in connection with an existing business. *Hanover Star Mill. Co. v. Metcalf*, 240 U.S. 403, 412-414, 60 L.ed. 713, 717-719, 36 Sup. Ct. Rep. 357.

In *Metropolitan National Bank*, this Court defined goodwill, to which a trademark is always attached, as something "connected with a going concern or business [and that] is not susceptible of being disposed of independently." 149 U.S. at 446.

When Congress later enacted the Lanham Act, providing for national registration of trademarks and nationwide protection of marks used in commerce, it codified this basic

principle in Section 10, 15 U.S.C. § 1060, which provides:

> A registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark, . . .

Federal courts, interpreting Section 10, have held that, for purposes of a valid trademark assignment, goodwill cannot be transferred independently of a going concern or business. *D E P Corp. v. Interstate Cigar Co.*, 622 F.2d 621 (2nd Cir. 1980); *Oklahoma Beverage Co. v. Dr. Pepper Love Bottling Co.*, 565 F.2d 629 (10th Cir. 1977); *Glamorene Products Corp. v. Procter & Gamble Co.*, 538 F.2d 894 (C.C.P.A. 1976); *Sterling Brewers, Inc. v. Schenley Industries, Inc.*, 441 F.2d 675 (CCPA 1971); *Mister Donut of America, Inc. v. Mr. Donut, Inc.*, 418 F.2d 838 (9th Cir. 1969); *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285 (8th Cir. 1969); *Dresser Industries, Inc. v. Heraeus Engelhard Vacuum, Inc.*, 395 F.2d 457 (3rd Cir. 1968); *J. C. Hall Company v. Hallmark Cards, Inc.*, 340 F.2d 960 (CCPA 1965); *Hy-Cross Hatchery, Inc. v. Osborne*, 303 F.2d 947 (CCPA 1962); *Armstrong Cork Co. v. Armstrong Plastic Covers Co.*, 434 F. Supp. 860 (E.D. Mo. 1977); *Otis Elevator Co. v. Echlen Mfg. Co.*, 187 U.S.P.Q. 310 (T.T.A.B. 1975); *Avon Shoe Co. v. David Crystal, Inc.*, 171 F. Supp. 293 (SDNY 1959), *aff'd*, 279 F.2d 607 (2nd Cir. 1960).

While the Court of Appeals for the Federal Circuit, in the decision below, *stated* that it was following these precedents, its decision was in fact contrary to them. One of the decisions which cannot be reconciled with the decision below is that of the Eighth Circuit Court of Appeals in *Grapette, supra.*

In *Grapette*, the Eighth Circuit held that a trademark assignment by Fox Corp. to Grapette was a legal nullity

where Fox had used the mark with a cola-flavored soft drink, whereas Grapette used the mark with a pepper-flavored soft drink. Fox continued to sell its cola under the mark "Fox Brand". The Eighth Circuit Court of Appeals held that a change in the product associated with the assigned mark caused a separation of the trademark from its related goodwill and vitiated the assignment.

The Circuit Court for the Federal Circuit, in its decision below, made no attempt to distinguish or reconcile its decision with *Grapette*. While both the Eighth Circuit in *Grapette* and the Federal Circuit below *state* that they are following the same principles of trademark law, they in fact conflict in that the decision below permits a mere *recital* to control over the *substance* of the transaction. The Eighth Circuit in *Grapette* insisted that a transfer of goodwill must have some substance, and cannot occur unless some underlying portion of the transferor's business is transferred and the transferee continues to use the mark in connection with the same product or service with which the transferor had used the mark. Only then can goodwill and a trademark, associated with the transferor's product or service, be validly transferred.

The Court below, on the other hand, held that any service mark can be validly transferred even though the assignee acquires no identifiable asset, intangible or tangible, associated with the service denoted by the service mark. The Court further held, contrary to the Eighth Circuit's decision in *Grapette*, that a mark can be properly transferred even though the assignee *does not provide the same service provided by the assignor and does not serve the same customers served by the assignor.*

Accordingly, the Eighth Circuit and the Federal Circuit, while agreeing that a mark cannot be transferred without a

simultaneous transfer of goodwill, disagree fundamentally as to whether substance or form should control. The Lanham Act's failure to define goodwill or to set forth a test for a valid transfer of goodwill has left the federal courts free to develop their own definitions and tests and thus has led to this conflict. The lower federal courts are in need of guidance from this Court if the Lanham Act is to be interpreted and applied consistently throughout the country.

Now is an especially appropriate time for this Court to provide guidance in construing the Lanham Act. The Court of Appeals for the Federal Circuit, as successor to the Court of Customs and Patent Appeals, is expected to be especially influential in trademark matters because it is supposed to have special expertise in this area of law (although in fact many of its members, including the author of the opinion below, are not former members of the CCPA). An erroneous decision by the Federal Circuit on a fundamental question of trademark law, such as the test for assignment of trademarks, is likely to be considered authoritative by other federal circuit courts, with the result that century-old principles of trademark law, on which many important licensing and franchising transactions have been based, would be in question, causing serious economic dislocations.

Since enactment of the Lanham Act in 1946, the United States Supreme Court has not rendered even one decision addressing the fundamental tenets of trademark law subsequent to the Act's passage. There is great need for this Court to settle authoritatively basic premises of trademark law, and no more timely occasion is likely to occur than during this first year of operation of the new Court of Appeals for the Federal Circuit, which appears to have embarked upon a dramatic departure from settled principles of the most fundamental nature. Absent guidance from

this Court, the Court of Appeals for the Federal Circuit is entirely free to disregard such pre-Lanham Act precedent, to disagree with the Eighth Circuit and other lower federal courts, and thus to create havoc for trademark owners, who depend upon the Lanham Act for uniformity of protection in all states where their marks are in use.

2. The decision below overrules the single most important tenet of trademark law otherwise consistently applied for nearly a century: trademarks are inseparable from the goodwill which they denote, and are not transferable apart from such goodwill.

Trademark law, both at common law and under the Lanham Act, recognizes valuable property rights based upon priority of use. By awarding exclusive rights to the first user, the law protects the trademark owner and the public against confusion and deception caused by subsequent users.

If trademark rights could be freely bought and sold, without continuity of usage or identity between the products or services of the seller and buyer, then a subsequent user could simply purchase exclusive rights to a mark from any first user, despite the different functions the mark may have served for the first user. By so doing, the latter user could leap-frog the priority established by an intervening user who has used the mark for products or services which are in fact similar to the later user's products or services, and thereby deprive the intervening user of the exclusive and prior rights, and the associated goodwill, it had earned by being the first party to use the mark in connection with such products or services. By thus purchasing its priority, without continuing the use established by the seller, the later user also creates confusion, because the seller's customers will wrongly assume that they can obtain the same

services or goods from the trademark purchaser as they had obtained from the trademark seller.

The decision of the Court below, in sanctioning an assignment of trademark rights by the mere recital that the assignment is accompanied by goodwill, and without any need to convey anything of substance that assures a continuity of products or services, has completely upset the two basic premises of trademark law – rights based upon priority and protection against confusion.

The decision below is especially dangerous precedent because it preserves the form of these fundamental rules of law – by acknowledging their existence and purporting to follow them – while stripping these rules of any substance. It does this by recognizing that a trademark assignment must be accompanied by a transfer of goodwill, and then stripping all meaning and substance from the word "goodwill".

As a consequence of the Court's decision, the possibility of auctioning trademark priorities to the highest bidder has become a reality, as envisioned by the hypothetical negotiations set forth below:

> B: "We see you've been using this ID mark for several years."
>
> A: "Well, if you are interested in buying it, we won't sell. We kind of like it."
>
> B: "Oh, no. We're not really interested in your mark. In fact we've already developed one of our own. However, we might have trouble registering our mark with yours out there, unless we make a deal with you. Also, we could use your priority."
>
> A: "What kind of deal? Remember I said we didn't want to sell."
>
> B: "Don't worry about that. Nothing will change. You get to keep your mark. We get to use ours. And we'll pay you $10,000."

A: "$10,000? If nothing changes, why would you want to pay me $10,000?"

B: "Well, if we can buy your priority, it might help us with our registration. We could claim we got a piece of your goodwill."

A: "Now wait a minute. We're not about to sell our goodwill. We want to keep on operating just like we always have."

B: "Relax! You're not really going to have to sell us any goodwill or anything else. All we want you to do is sign a piece of paper that says we've bought your goodwill, but we promise to structure the deal so that nothing really happens. It just could be, though, a useful thing because maybe nobody will look behind the barebones recital about goodwill and all that."

A: "But what about our marks? We wouldn't want any of our customers to think there was any connection between your mark and ours, and I'm sure you don't either."

B: "We've thought of that too. But don't worry. No one will ever think there's any connection at all. You see, our marks look entirely different. Now we would want you to agree never to use a mark that resembles ours. No window or door front displays either; that would look too much like the way we do business. And by all means, do not use your mark the way we are going to use ours."

A: "Why not?"

B: "Very simple. We are doing everything possible to keep your mark separate from ours, so no one will think there's a connection."

A: "But if you keep them that separate, aren't you defeating your purpose? Don't you want to pretend you're buying some of our goodwill?"

B: "Of course, you are quite right. But look at it this way. You won't really sell your goodwill, so the only thing we can do is pretend to buy it and then leave you alone just as you were before. All we are really doing is buying your priority."

A: "Couldn't this get out of hand, everybody starting to buy everybody else's priorities?"

B: "Why, what's wrong with that? Maybe we'll be able to get them listed for trading on the commodities exchanges."

Petitioner BTNB respectfully prays that this Court will grant this Petition for Certiorari to the Court of Appeals for the Federal Circuit.

Respectfully submitted,

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APPENDIX

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Opinion and Decision of United States Court of Appeals For The Federal Circuit, December 29, 1982

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

VISA, U.S.A., INC.,	)	App. No. 82-547
	)	
Appellant,	)	
	)	
v.	)	
	)	
BIRMINGHAM TRUST NATIONAL BANK,	)	
	)	
	)	Opp. Nos. 60,469
Appellee.	)	60,500

DECIDED: December 29, 1982

Before FRIEDMAN, BALDWIN and NIES,
Circuit Judges.

FRIEDMAN, *Circuit Judge.*

This appeal challenges decisions of the Patent and Trademark Office Trademark Trial and Appeal Board (the Board), 212 USPQ 115 (1981), in a consolidated proceeding involving applications by each party for registration of the mark "O.K." in various forms used in connection with check cashing services. As explained herein, the determinative issue in each case depends upon the validity of the assignment by which the appellant acquired the rights in the mark from its former owner. The Board held the assignment invalid on the ground that it constituted a naked

assignment of the mark without the transfer of the goodwill to which the mark related. We reverse.

I.

A. On September 20, 1976, the appellant, VISA U.S.A., INC. (Visa),[1] applied to the Patent and Trademark Office to register on the principal register the service mark "O.K."[2] for "the services of providing check cashing privileges by means of a card." On September 23, 1976, appellee Birmingham Trust National Bank (Birmingham Trust) filed applications to register two similar marks ("Check-OK" and "OK" with a checkmark in the "O") for "banking services." The record established that the marks were used for Birmingham Trust's own check cashing card program. Visa and Birmingham Trust each filed an opposition to the respective applications. The Board consolidated the opposition proceedings.

Birmingham Trust had first used the mark on May 3, 1976. Alpha Beta Company ("Alpha Beta"), which later assigned the mark to Visa, had first used the mark on June 13, 1970.[3] Visa first used the mark in November 1976, on Visa "Check-O.K." cards. The assignment was made on September 10, 1976, and Visa claims that as the assignee of Alpha Beta, it could assert priority based upon Alpha Beta's earlier date of use. Under this theory, Visa's use of the mark preceded the use of Birmingham Trust by almost 6 years. Birmingham Trust's response was that the assignment of the mark from Alpha Beta to Visa was invalid be-

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[1]At that time, Visa was named National BankAmericard, Incorporated. We shall refer to this company as "Visa."

[2]The specimens of use show the mark OK, and the Board has stated that amendment should be required.

[3]The parties had various versions of the mark. The parties agreed that despite these differences the use of the various marks would be confusing. We use the term "Check-O.K." to refer to all the variations.

cause it did not also transfer Alpha Beta's goodwill associated with the mark.

B. The facts relating to the use and assignment of the mark are not in dispute. Alpha Beta, a chain of grocery stores in California and Arizona, first used the "Check-O.K." mark in 1970 to identify a program in which it provided its customers with cards that authorized Alpha Beta cashiers to accept personal checks. In order to obtain a card, a customer had to provide the store with certain credit information. Each card could be used only at the particular store where it was issued. Alpha Beta advertised the "Check-O.K." program as a way of making grocery shopping more convenient for those using checks. It used the "Check-O.K." mark continuously through September 1976. It issued cards to more than 1.5 million customers.

Birmingham Trust initiated its "Check-O.K." program in May 1976. Birmingham Trust customers received cards displaying the mark that enabled them to pay with personal checks for merchandise purchased at the stores of participating merchants (or to obtain cash with such checks). Birmingham Trust guaranteed payment of any check for up to $100 accepted in reliance upon a valid guaranty card. Birmingham Trust operated the program throughout the Birmingham, Alabama area.

Visa is a membership corporation composed of a large number of banks and financial institutions. For a number of years, it has issued a well-known credit card. In 1976, Visa decided to enter the check guaranty card business on a nationwide basis under the "Check-O.K." mark. Visa searched for other uses of the mark and found that Alpha Beta had registered it in California. At that time, Birmingham Trust was just beginning its program and had not registered the mark in Alabama or elsewhere.

On September 10, 1976, Alpha Beta and Visa executed three documents:

1. Alpha Beta and Visa entered into a contract by which Alpha Beta undertook to transfer its mark to Visa for $10,000. The agreement recited that Visa desired "to acquire the Mark and the goodwill symbolized thereby for use in connection with a national check approval program to be administered by [Visa] among its member financial institutions."

2. Alpha Beta assigned to Visa "all rights, title and interest in and to the said mark, all variations thereof, and designs thereof, together with the goodwill of the business symbolized by the mark and any variations thereof, the registration(s) thereof, and all causes of action for past infringement."

3. Visa and Alpha Beta entered into a license agreement under which Visa gave Alpha Beta "a non-exclusive, nontransferable license to use the Mark in connection with check approval services for [Alpha Beta's] customers." The agreement provided that Alpha Beta would use the mark "only in the design" set forth on Alpha Beta's card, a copy of which was an exhibit to the agreement, and that the mark would not be displayed on store windows or doors. Alpha Beta agreed that "the nature and quality of all services rendered in connection with the Mark shall conform to standards set by, and under the control of, [Visa]" and that it would comply with three specified "minimum standards." The agreement authorized Alpha Beta to grant nontransferable sublicenses to Alpha Beta's parent company and to any of the latter's "wholly owned subsidiaries engaged in retail merchandising."

Following these transactions, Visa initiated its own check guaranty program under the "Check-O.K." mark in November 1976. The program was similar to that of Birming-

ham Trust, but was offered nationwide by various banks affiliated with Visa. Each participating bank operates the program locally in much the same way that Birmingham Trust runs its program. Visa's affiliated banks have issued more than 3 million cards with the mark under check guaranty programs. Visa controls the quality of the services its affiliates provide under the mark.

Under the license from Visa, Alpha Beta has continued to operate its check approval program under the "Check-O.K." mark much as it did before the assignment and license-back agreement. It operates the program, however, only in its Arizona stores, which comprise only about 5 percent of its total stores. The record does not explain why Alpha Beta no longer conducts the program in its California stores.

C. The Board awarded priority of use of the mark to Birmingham Trust and refused registration to Visa. It therefore dismissed Visa's opposition and sustained Birmingham Trust's opposition.

The Board stated that

> an agreement which purports to assign a mark and the goodwill of the business which it symbolizes, whether made with or without a transfer of tangible or intangible assets, is not valid unless the assignee carries on the business of the assignor by using the mark in connection with goods or services which are the same as or substantially similar to those upon which the mark was used by the assignor.

It held that the assignment in this case did not satisfy that standard because the services Alpha Beta and Visa provided under the mark

> are substantially different in nature. The Visa service involves a check guarantee, so that a merchant can cash a card-holding customer's check without hesitation, whereas the Alpha Beta service does not; the

> Alpha Beta service is available to holders of the Alpha Beta "OK" cards only at Alpha Beta stores, whereas the Visa service is available to holders of Visa "OK" cards at a large variety of participating retail stores; the Alpha Beta program involves only Alpha Beta and its customers, whereas the Visa program involves Visa's member banks, participating merchants, and those customers of the merchant who hold Visa "OK" cards issued by Visa's member banks; and the Alpha Beta service is directed to card-holding Alpha Beta customers, whereas the Visa service is directed both to merchants and to those of their customers who hold Visa "OK" cards.

The Board stated:

> Under the "license back", Alpha Beta remains free to use the "OK" design mark in connection with its service in the same form as before, and Alpha Beta continues to benefit from the goodwill of the business which was symbolized by the mark prior to the purported assignment. Indeed, it appears from the record that, except for the fact that it has given up control over the mark, the only change in Alpha Beta's position since the date of the purported assignment and the "license back" has been that its use has been limited, for reasons unknown to this record, to Alpha Beta's 15 stores in Arizona, despite the fact that the bulk of Alpha Beta's stores are located in California.

The Board concluded that "the circumstances surrounding the purported assignment lead us to conclude that there was, in fact, no real transfer of goodwill" and that the assignment "was in essence a transfer [of the mark] in gross and, hence, invalid under Section 10 of the Trademark Act [15 U.S.C. 1060 (1976)]."

II.

A. Unlike patents or copyrights, trademarks are not separate property rights. They are integral and inseparable

elements of the goodwill of the business or services to which they pertain. "Since goodwill is inseparable from the business with which it is associated" (*Avon Shoe Co. v. David Crystal, Inc.*, 171 F. Supp. 293, 301, 121 USPQ 397, 403 (S.D.N.Y. 1959) *aff'd*, 279 F.2d 607, 125 USPQ 607 (2d Cir.), *cert. denied*, 362 U.S. 909 (1960)), when one speaks of the transfer of goodwill that accompanies a mark, one necessarily means the transfer of the portion of the business or service with which the mark is associated.

The consequence is that a mark may be transferred only in connection with the transfer of the goodwill of which it is a part. A naked transfer of the mark alone—known as a transfer in gross—is invalid.

This was the rule at common law (*see United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918)), which section 10 of the Lanham Act (15 U.S.C. § 1060 (1976)) adopts in its provision that a mark is "assignable with the goodwill of the business in which the mark is used, or that part of the goodwill of the business connected with the use of and symbolized by the mark." The Court of Customs and Patent Appeals, the decisions of which bind us (*see South Corp. v. United States*, 690 F.2d 1368, 1370, 215 USPQ 657, 658 (Fed. Cir. 1982) (*en banc*)), frequently has recognized and applied this rule. *See, e.g., Hy-Cross Hatchery, Inc. v. Osborne*, 303 F.2d 947, 133 USPQ 687 (CCPA 1962). *See also Glamorene Products Co. v. The Procter & Gamble Co.*, 538 F.2d 894, 190 USPQ 543 (CCPA 1976); *Sterling Brewers, Inc. v. Schenley Industries, Inc.*, 441 F.2d 675, 169 USPQ 590 (CCPA 1971); *J. C. Hall Co. v. Hallmark Cards, Inc.*, 340 F.2d 960, 144 USPQ 435 (CCPA 1965); 1 J. McCarthy, *Trademarks and Unfair Competition*, § 18:1 (1973).

A valid transfer of a mark, however, does not require the transfer of any physical or tangible assets. All that is neces-

sary is the transfer of the goodwill to which the mark pertains. *Hy-Cross Hatchery*, 303 F.2d at 950, 133 USPQ at 689. *See also Glamorene Products*, 538 F.2d at 895-96, 190 USPQ at 545; *Sterling Brewers*, 441 F.2d at 680, 169 USPQ at 594; *J. C. Hall*, 340 F.2d at 963, 144 USPQ at 437-38; *The Money Store v. Harriscorp Finance, Inc.*, Nos. 81-2937 & 81-3002, slip op. at 18-22 (7th Cir. Sept. 20, 1982); 1 J. McCarthy, *Trademarks and Unfair Competition*, § 18:7(B) (1973).

The rationale for the prohibition against a naked assignment of the mark without the accompanying goodwill stems from the nature of trademarks themselves. They identify the source of the goods and services offered. A key objective of the law of trademarks is protection of the consumer against being misled or confused as to the source of the goods or services he acquires. The rule against assignment of a mark in gross thus reflects "the need, if consumers are not to be misled from established associations with the mark, that it continue to be associated with the same or similar products after the assignment." *Raufast S.A. v. Kicker's Pizzazz, Ltd.*, 208 USPQ 699, 702 (E.D.N.Y. 1980).

In the light of these principles, we reject the Board's determination that the assignment in this case was invalid because there was no transfer of the goodwill to which the mark pertained.

B. The goodwill of Alpha Beta to which the mark pertained was not that of the firm's grocery business but that of a service ancillary to that business. "Check-O.K." had been used only in connection with a check approval service that enabled customers to pay by check for their purchases upon showing the card. In the hands of Visa, the mark related to the same basic service, namely, providing a means

by which the holders of the card could make purchases by check upon showing the card.

The Board stated that Visa provided a different service than Alpha Beta had provided because it guaranteed independent merchants that the issuing bank would honor checks up to a stated amount, whereas the Alpha Beta card merely authorized the check-out clerk to accept the cardholder's check but provided no guaranty of payment. The Board further pointed out that the Visa program involved a third party—independent retail merchants—not involved in the Alpha Beta customer service.

The goodwill that attached to the Alpha Beta "Check-O.K." mark, however, related to the service provided to the cardholder, not to the store. The advertising and publicity about both cards were directed to users of the cards. The function the cards performed did not change when Alpha Beta assigned the mark and its related goodwill to Visa. Visa's advertising and publicity, like those of Alpha Beta, were directed to individuals who would find the cards useful in enhancing their ability to pay for goods and services with personal checks.

The Board also found that the Alpha Beta program's restriction of use of the card to the issuing store was not carried over to the Visa service. Although the category of stores in which Visa customers could use their cards was far broader than under the Alpha Beta card, the Visa cards performed for the cardholders the identical function that the Alpha Beta cards had performed. They enabled cardholders to obtain goods, services, or cash with personal checks by displaying the card.

The Visa and Alpha Beta programs were not identical. But the transfer of goodwill requires only that the services be sufficiently similar to prevent consumers of the service offered under the mark from being "misled from estab-

lished associations with the mark." Where, as here, the basic service offered by the assignor is offered by the assignee, albeit in a significantly expanded way, there is no reason to presume that consumers will not be properly protected. Neither the Board nor Birmingham Trust has demonstrated that users of the Visa "Check-O.K." card would be confused or misled about the source, character, or nature of the service they would receive under the card. Thus the policy underlying the requirement that goodwill accompany the mark through the assignment does not compel the invalidation of the assignment. *See The Money Store v. Harriscorp. Finance, Inc., supra,* slip op. at 21-22.

In sum, Alpha Beta's assignment of the mark was not an assignment in gross, but was a transfer of the check cashing service of Alpha Beta's business, *i.e.*, a transfer of the mark and the goodwill to which the mark pertained.

C. The remaining question is whether this otherwise valid assignment was vitiated because Visa simultaneously gave Alpha Beta a license to continue to use the mark for Alpha Beta's check acceptance program in Alpha Beta's own stores. We say simultaneously because, although the agreement between Alpha Beta and Visa to assign the trademark did not refer to the license back, the assignment and license back obviously were component parts of a single transaction. Both the purchase agreement and license agreement were prepared before the September 10, 1976 date shown on them. The date was inserted in ink in a blank space on each of the typewritten documents.

A license back of an assigned mark to enable the assignor-licensee to continue to conduct the same business or provide the same services under the mark is not a novelty. A number of courts, without discussion, tacitly have upheld the practice. *E.g., Geo. A. Hormel & Co. v. Hereford Heaven Brands,* 341 F.2d 158, 144 USPQ 493 (CCPA 1965)

(continued use by assignor-licensee does not affect assignee-licensor's claim to priority in opposition to registration); *Raufast S.A. v. Kicker's Pizzazz*, 208 USPQ 699 (E.D.N.Y. 1980) (license back to assignor did not mislead consumers); *Andrew Jergens Co. v. Woodbury, Inc.*, 273 F. 952 (C.D. Del. 1921), *aff'd* 279 F. 1016 (3d Cir. 1922); *but see Greenlon, Inc. of Cincinnati v. Greenlawn, Inc.*, 542 F. Supp. 890 (S.D. Ohio 1982) (assignment invalid when assignor continued to operate own business using mark concurrently with geographically remote use by assignee). Indeed, a leading trademark treatise, after stating that "[a]n assignment is valid even though it may reserve certain rights of use of the mark in the assignor," suggests that "[u]sually such a situation should be handled by an assignment of the mark and good will, followed by license back to the assignor of the mark." J. McCarthy, *Trademarks and Unfair Competition*, § 18.1(E) at 608 (1973).

Neither the Board nor Birmingham Trust has given any convincing reason for striking down this apparently well-settled commercial practice.

A license back is valid if it satisfies the conditions of validity for trademark licenses generally. The principal requirement, and the only one here critical, is that "the licensing agreement provides for adequate control by the licensor over the quality of goods or services produced under the mark by a licensee. . . . The purpose of such a requirement is to protect the public from being misled." *Haymaker Sports, Inc. v. Turian*, 581 F.2d 257, 261, 198 USPQ 610, 613 (CCPA 1978).

The license back from Visa to Alpha Beta met that requirement. As noted (*supra*, p. 4), Alpha Beta agreed that "the nature and quality of all services rendered in connection with the Mark shall conform to standards set by, and under the control of, [Visa]." Alpha Beta also agreed to

comply with "the following minimum standards:" that Alpha Beta would use the mark only in check approval cards it issued to its customers, that the cards would be used only in Alpha Beta stores, and that upon a customer's display of a valid card containing the mark, Alpha Beta would accept the customer's check. Although the licensing agreement was of infinite duration, Visa had the right to terminate it for a "material breach of [its] provisions," which included the quality control provisions just described.

Contrary to the view of the Board, it is not determinative that there was "no evidence showing to what extent Visa has actually exercised real and effective control over the nature and quality of the services performed by Alpha Beta under the licensed mark." The license back provided for adequate control by Visa of Alpha Beta's use of the mark.[4] If Birmingham Trust contended that control was not exercised, it had the burden so to demonstrate. *See United States Jaycees v. Philadelphia Jaycees*, 639 F.2d 134, 140, 209 USPQ 457, 463 (3d Cir. 1981); *Edwin K. Williams & Co. v. Edwin K. Williams, etc.*, 542 F.2d 1053, 1059, 191 USPQ 563, 568 (9th Cir. 1976); *Geo. A. Hormel & Co. v. Hereford Heaven Brands*, 341 F.2d 158, 160, 144 USPQ 493, 495 (CCPA 1965). Not only has Birmingham Trust not shown any lack of control, but it does not even make that claim.

CONCLUSION

The decision of the Trademark Trial and Appeal Board is reversed.

REVERSED.

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[4]Since the license back is valid, it follows concomitantly that there is no split of goodwill from the mark. The mark is used for precisely the same services as before the assignment with use by the licensee inuring to the benefit of the licensor as a related company. 15 U.S.C. §§ 1055, 1127.

Opinion and Decision of Trademark Trial and Appeal Board, September 15, 1981

U.S. DEPARTMENT OF COMMERCE
PATENT AND TRADEMARK OFFICE

Trademark Trial and Appeal Board

VISA USA, Inc.
v.
Birmingham Trust National Bank

Opposition No. 60,469, to application Serial Nos. 100,833 and 100,834 filed September 23, 1976.

Opposition No. 60,500, to application Serial No. 100,321 filed September 20, 1976.

Before Rice, Kera*, Allen, Members.
Opinion by Rice, Member:

On September 20, 1976, an application was filed by National BankAmericard, Incorporated to register the mark "O.K." for the service of providing check cashing privileges by means of a card, use since June 1, 1970 being asserted.[1] The name of the applicant was subsequently changed to VISA U.S.A., Inc. (hereinafter "Visa").

*Board Member Kera resigned from government service before an opinion was drafted in this case and hence did not participate in the resolution of the issues herein.

[1]Serial No. 100,321 (subject of Opposition No. 60,500). In the event that applicant ultimately prevails on the inter partes issues in this case, it is recommended under Trademark Rule 2.131 that applicant be required to file an amended drawing of its mark in order that the mark in the drawing (which currently has a period after each of the letters "O" and "K") will agree with the mark as used in the specimens of record (where there are no periods).

On September 23, 1976, applications were filed by Birmingham Trust National Bank (hereinafter "Birmingham") to register the mark "CHECK-OK" and the mark shown below,

both for banking services,[2] use since May 3, 1976 being asserted in each instance.

Each party has opposed the application/s of the other based essentially upon a claim of priority of use and likelihood of confusion. It is apparent from the pleadings that the parties agree as to the claim of a likelihood of confusion, at least insofar as their respective banking services are concerned, but disagree as to which is the prior user. Specifically, Visa alleges use by itself and by a predecessor in interest, Alpha Beta Company (hereinafter "Alpha Beta"), of the mark "OK" with a checkmark design[3] in connection with providing check cashing privilege services since "a date prior to" May 3, 1976, Birmingham's claimed date of first use. Birmingham, on the other hand, admits that it made no use of its marks "CHECK-OK" and "OK" with a checkmark design prior to May 3, 1976, but asserts that the

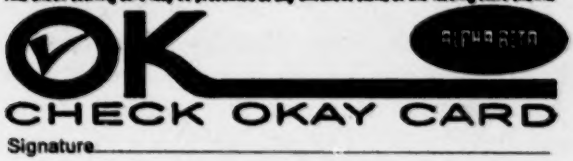
[2]Serial Nos. 100,834 and 100, 833, respectively (these applications are the subject of Opposition No. 60,469).

[3]Although Visa in its application seeks only to register the designation "OK" per se, the specimens in the application show use of that designation with a checkmark design.

assignment upon which Visa relies in support of its claim of priority was invalid and ineffective, and that Visa cannot claim priority based upon its assignor's use.

A review of the evidence of record (which consists of stipulated and/or affidavit testimony filed pursuant to Trademark Rule 2.123 in behalf of each party) reveals that the banking services offered by Birmingham under its marks sought to be registered include, inter alia, check guarantee services, whereby Birmingham guarantees to participating merchants that approved bank customers' checks drawn on their accounts for amounts up to a specified limit will be honored by Birmingham, so that merchants and others may accept and/or cash such checks without fear that they will be returned unpaid; and personal identification services, whereby Birmingham provides to approved banking customers a card bearing the mark, the customer's name and signature, and other identifying matter which helps merchants who honor the card to verify the identity of the customer to whom the card is issued and from whom a check is being received. In view thereof, and since the services for which Visa seeks to register its mark are described as "providing check cashing privileges by means of a card", we have no doubt that the contemporaneous use of the marks here involved in connection with the respective services of the parties would in fact be likely to cause confusion or to cause mistake or to deceive. Thus, the principal issue to be determined in this proceeding is the issue of priority of use. Inasmuch as Visa did not itself begin to use its involved mark until after May 3, 1976, the date of first use claimed in Birmingham's application and substantiated by the evidence of record, the issue of priority of use in turn hinges upon whether Visa is entitled to rely upon the prior use of its alleged assignor, Alpha Beta, of the mark "OK" with a checkmark design.

In this regard, the record indicates that Alpha Beta first used the mark "OK" with a checkmark design in connection with a check cashing and customer identification card service on June 13, 1970. Reproduced below is a reproduction of one of Alpha Beta's cards bearing the mark (apparently the same cards which were submitted by Visa as specimens in its application):



The Alpha Beta check cashing and customer identification card service was an intra-corporate program that served to indicate to Alpha Beta's cashiers that Alpha Beta authorized the cashier to accept a check from a holder of an "OK" card in payment of the charges made by the customer. When a customer presented such a card to the cashier, the cashier was relieved of the obligation to obtain additional information from the customer concerning his identification and his checking account relationship with the bank on which the check was drawn. Alpha Beta's "OK" and design program did not include any banking services. No entity other than Alpha Beta honored the "OK" and design cards issued by it. No part of the program was owned or administered by any bank, nor did the "OK" card operate as a guarantee for the checks of the holder. The mark "OK" and design was used not only on

the cards but also on program application forms and on graphic store displays which explained the program to Alpha Beta's customers and told them how to get their checks cashed at Alpha Beta Stores.

From June of 1970 to September of 1976, Alpha Beta continuously used the "OK" and design mark in connection with its check cashing and customer identification card service in its more than 270 grocery stores in California and more than 13 grocery stores in Alabama. During that period, Alpha Beta issued a total of more than 4,000,000 "OK" and design cards to more than 1,500,000 card-holder customers in California and Arizona (the discrepancy between the two figures is accounted for by the fact that many of the cards issued were reissue cards), with almost 10,000 new and reissue cards being issued weekly to Alpha Beta's customers in the states of California and Arizona (of this amount, approximately 500 new and reissue cards were issued weekly to Alpha Beta's customers in Arizona, and the remainder, which constituted the great bulk of the cards issued, went to customers in California).

On September 10, 1976 Alpha Beta and Visa (then known as National BankAmericard Incorporated) executed a document purporting to be an assignment, recited to be for good and valuable consideration, of all rights, title and interest in and to the mark "O.K.", and all variations and designs thereof, together with the goodwill of the business symbolized by the mark and any variations thereof, from Alpha Beta to Visa. Aside from the mark itself and the goodwill of the business associated therewith, which were purportedly transferred to Visa under the assignment, no other assets were transferred from Alpha Beta to Visa. According to the purchase agreement executed in conjunction with the assignment, Visa paid Alpha Beta $10,000 for the mark and associated goodwill. On the same day, the parties

also entered into a "license back" agreement which recited, inter alia, that Alpha Beta desired to have for itself the right to use the mark in connection with check approval services for its customers; that Visa desired to use the mark in connection with a national check approval program to be administered by it among its member financial institutions; and that Visa was accordingly granting to Alpha Beta a non-exclusive, non-transferable license to use the mark in connection with check approval services for Alpha Beta's customers. Among the provisions of the contract were agreements by Alpha Beta to use the mark only in the same form in which Alpha Beta had previously used it; that Visa should have the right to require Alpha Beta to submit to Visa specimens of Alpha Beta's materials bearing the mark so that Visa might insure proper usage thereof; that the mark should not be displayed on store windows or doors; and that the nature and quality of all services rendered under the mark should conform to standards set by, and under the control of, Visa, including that the mark would be used only on check approval cards issued by Alpha Beta to its customers; that such check approval cards should be used by cardholders only at stores maintained by Alpha Beta; and that upon presentation by a cardholder of a valid, unexpired "OK" and design check approval card issued by Alpha Beta, Alpha Beta should promptly accept the cardholder's check in payment for purchase of goods and services or give the cardholder cash or a combination of cash and goods and services. The "license back" was for an unlimited term (so long as Alpha Beta desired to continue to use the mark and there was no breach of the provisions of the license) and did not include any provision for the payment of royalties by Alpha Beta to Visa. Since the day of the purported assignment and license back, Alpha Beta has continued to use the mark "OK" with a checkmark design

(hereinafter referred to as the Alpha Beta "OK" design mark), as shown on the card reproduced above, in connection with its customer identification and check cashing program in its now more than fifteen stores in Arizona pursuant to the license from Visa.

Visa is a membership corporation comprised of United States financial organizations which participate in card programs using one or more service marks or trademarks that are owned by Visa and its affiliates. Since November of 1976, member organizations of Visa have been issuing to their customers cards bearing the mark "OK" with a checkmark design (hereinafter referred to as the Visa "OK" design mark), shown below

in connection with a check guarantee program. Under this program, member banks of Visa have entered into agreements with participating merchants whereby a merchant, upon receiving proper authorization at the point of sale,[4] may accept the check of a customer, who has a card bearing the Visa "OK" design mark, for either payment for merchandise or for cash, and the merchant will be assured of payment in the event that the customer's check is dishonored by the customer's bank. Visa has set up various standards and specifications with which all members must comply in administering their check guarantee programs under the Visa "OK" design mark. Over 3,000,000 cards bearing the mark have been issued by Visa's members in connection

[4]It appears from the exhibits of record that a participating merchant normally obtains check authorization, or validation, by means of a computer terminal installed on his premises. The terminal has access to central data files in the computer of the member bank in question, and will indicate approval or non-approval of each check submitted for validation.

with their check guarantee programs. Visa has not honored the cards bearing Alpha Beta's "OK" design mark which were issued by Alpha Beta prior to September 10, 1976 (the date of the purported assignment of the mark to Visa) in connection with Visa's check guarantee program identified by Visa's "OK" design mark.

It has long been held there is no such thing as a common law property right in a trademark except as a right appurtenant to an established trade or business in connection with which the mark is employed. Hence, no rights in a trademark can be transferred apart from the business or part of the business which it symbolizes. See: Mister Donut of America, Inc. v. Mr. Donut, Inc., 164 USPQ 67 (CA9 1969); Avon Shoe Co., Inc. v. David Crystal, Inc., 121 USPQ 397 (DC SD NY 1959), affirmed 125 USPQ 607 (CA2 1960); and cases cited therein. This common law rule forms the basis for the provision in Section 10 of the Trademark Act of 1946 that "[a] registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark, . . ."[5] Cf. Mister Donut of America, Inc. v. David Crystal, Inc., supra. As long as a mark is assigned along with the goodwill of the business which it symbolizes, the assignment of the mark is effective even though there is no transfer of tangible assets. See: Glamorene Products Corporation v. The Procter & Gamble Company, 190 USPQ 543 (CCPA 1976); Sterling Brewers, Inc. v. Schenley In-

[5]The term "goodwill" is variously defined in *Black's Law Dictionary* (Fifth Edition, 1979) as, *inter alia*, "[t]he favor which the management of a business wins from the public"; "[t]he fixed and favorable consideration of customers arising from established and well-conducted business."; and "[t]he custom or patronage of any established trade or business; the benefit or advantage of having established a business and secured its patronage by the public."

dustries, Inc., 169 USPQ 590 (CCPA 1971); J. C. Hall Company v. Hallmark Cards, Incorporated, 144 USPQ 435 (CCPA 1965); Hy-Cross Hatchery, Inc. v. Osborne, 133 USPQ 687 (CCPA 1962); and Armstrong Cork Company v. Armstrong Plastic Covers Company, 195 USPQ 387 (DC E DMO 1977). Whether goodwill is actually conveyed is a question of fact to be determined on the basis of the circumstances surrounding the contractual agreement. In this regard, an agreement which purports to assign a mark and the goodwill of the business which it symbolizes, whether made with or without a transfer of tangible or intangible assets, is not valid unless the assignee carries on the business of the assignor by using the mark in connection with goods or services which are the same as or substantially similar to those upon which the mark was used by the assignor. See: PepsiCo, Inc. v. The Grapette Company, Inc., 163 USPQ 193 (CA8 1969) [assignee's pepper flavored soft drink different from assignor's cola flavored syrup-invalid assignment], and cases cited therein; Armstrong Cork Company v. Armstrong Plastic Covers Company, supra [goods of assignor and assignee same-valid assignment]; Syntex Laboratories, Inc. v. The Norwich Pharmacal Company, 166 USPQ 312 (DC SD NY 1970), affirmed 169 USPQ 1 (CA2 1971) [products of assignor and assignee identical-valid assignment]; and Avon Shoe, Inc. v. David Crystal, Inc., supra [assignee's women's gloves different product from assignor's men's gloves-invalid assignment].

In the instant case, the purported assignment agreement contained a *pro forma* recitation that the goodwill of the business symbolized by the mark "O.K." was transferred with the mark. However, the circumstances surrounding the purported assignment lead us to conclude that there was, in fact, no real transfer of goodwill. In this regard, the record discloses that no other assets, tangible or intangible,

were transferred either purportedly or in actuality. Although the failure to transfer other assets is not necessarily fatal, in each of the cases cited by Visa in which an assignment was held to be valid absent a transfer of other assets, the assignee continued to use the mark in connection with the same goods or services as the assignor. Here, Visa had no interest whatsoever in using the mark in connection with grocery store check cashing and customer identification card services similar to those rendered by Alpha Beta under the mark. Rather, Visa wanted to use the mark in connection with a banking service in the nature of a check guarantee program, and what Visa needed, and undoubtedly acquired under the agreement, was freedom to use the "OK" design mark to identify its check guarantee program without fear of suit by Alpha Beta (the record does not reveal whether or not Visa knew of Birmingham's use of the marks "CHECK-OK" and "O.K." with check design at the time of the purported assignment from Alpha Beta to Visa). While both services may be fairly comprehended by the identification of services set forth in Visa's application, namely, "providing check cashing privileges by means of a card", it is obvious that the two services are substantially different in nature. The Visa service involves a check guarantee, so that a merchant can cash a card-holding customer's check without hesitation, whereas the Alpha Beta service does not; the Alpha Beta service is available to holders of the Alpha Beta "OK" cards only at Alpha Beta stores, whereas the Visa service is available to holders of Visa "OK" cards at a large variety of participating retail stores; the Alpha Beta program involves only Alpha Beta and its customers, whereas the Visa program involves Visa's member banks, participating merchants, and those customers of the merchant who hold Visa "OK" cards issued by Visa's member banks; and the Alpha Beta service is directed to

card-holding Alpha Beta customers, whereas the Visa service is directed both to merchants and to those of their customers who hold Visa "OK" cards. Under the "license back", Alpha Beta remains free to use the "OK" design mark in connection with its service in the same form as before, and Alpha Beta continues to benefit from the goodwill of the business which was symbolized by the mark prior to the purported assignment. Indeed, it appears from the record that, except for the fact that it has given up control over the mark, the only change in Alpha Beta's position since the date of the purported assignment and the "license back" has been that its use has been limited, for reasons unknown to this record, to Alpha Beta's 15 stores in Arizona, despite the fact that the bulk of Alpha Beta's stores are located in California. The term of the "license back" agreement is unlimited and, as far as this record shows, Alpha Beta pays no royalties under the license. Further, there is no evidence showing to what extent Visa has actually exercised real and effective control over the nature and quality of the services performed by Alpha Beta under the licensed mark. Some months after the purported assignment, Visa began to use a different version of the mark to identify its check guarantee program. Alpha Beta is prohibited from using this form of the mark in connection with its services.

For the reasons set forth above, we are of the opinion that while the purported assignment to Visa may appear on its face to meet the requirements of Section 10 for a valid assignment, the surrounding circumstances indicate that it was in essence a transfer in gross and, hence, invalid under Section 10 of the Trademark Act. Accordingly we accord priority of use to Birmingham.

Decision:

Opposition No. 60,469 is dismissed. Opposition No.

60,500 is sustained, and registration to applicant in that case (Visa) is refused.

J. E. RICE
J. E. Rice

D. B. ALLEN
D. B. Allen

Members, Trademark Trial
and Appeal Board

Dated: September 15, 1981

Judgment of United States Court of Appeals For The Federal Circuit, December 29, 1982

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

VISA, U.S.A., INC.,	)	No. 82-547
	)	
Appellant,	)	
	)	
v.	)	
	)	
BIRMINGHAM TRUST NATIONAL BANK,	)	
	)	
	)	Opp. Nos. 60,469
Appellee.	)	60,500

JUDGMENT

ON APPEAL from the Patent & Trademark Office
This CAUSE having been heard and considered, it is ORDERED and ADJUDGED: REVERSED.

DATED December 29, 1982

ENTERED BY ORDER
OF THE COURT
George E. Hutchinson, Clerk

/s/ George E. Hutchinson
Clerk

ISSUED AS A MANDATE: January 19, 1983

Order of United States Court of Appeals For The Federal Circuit Upon Petition for Rehearing, March 17, 1983

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

VISA, U.S.A., INC.,	)	
	)	
Appellant,	)	
	)	
v.	)	No. 82-547
	)	
BIRMINGHAM TRUST NATIONAL BANK,	)	
	)	
	)	
Appellee.	)	

ORDER

A suggestion for rehearing en banc and a petition for reconsideration having been filed in this case,

UPON CONSIDERATION THEREOF, it is Ordered by the court that the suggestion for rehearing en banc and the petition be, and the same are hereby, Denied.

FOR THE COURT:

/s/ George E. Hutchinson
Clerk

Dated: March 17, 1983

Office - Supreme Court, U.S.
FILED
JUL 16 1983
ALEXANDER L. STEVAS
CLERK

No. 82-2066

In the Supreme Court

OF THE

United States

OCTOBER TERM, 1982

BIRMINGHAM TRUST NATIONAL BANK,
Petitioner,

vs.

VISA, U.S.A., INC.,
Respondent.

RESPONDENT'S BRIEF IN OPPOSITION

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QUESTION PRESENTED FOR REVIEW

The sole question presented is: Was the Court of Appeals for the Federal Circuit correct in holding that the assignment and transfer by Alpha Beta Company to Visa U.S.A. Inc., Respondent, "was not an assignment in gross, but was . . . a transfer of the mark and the goodwill to which the mark pertained".

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PARENT COMPANY, SUBSIDIARIES AND AFFILIATES

Visa U.S.A., Inc. is a non-stock membership corporation consisting of approximately 13,400 banks and other financial institutions, although no one of these banks or other financial institutions has such a substantial interest as to be an interested party. Moreover, visa U.S.A., Inc. is itself a member of Visa International Service Association, a non-stock membership corporation consisting of approximately 14,300 banks, groups of banks, and other financial institutions worldwide.

No. 82-2066

In the Supreme Court

OF THE

United States

OCTOBER TERM, 1982

BIRMINGHAM TRUST NATIONAL BANK,
Petitioner,

VS.

VISA, U.S.A., INC.,
Respondent.

RESPONDENT'S BRIEF IN OPPOSITION

STATEMENT OF THE CASE

The Court below (CAFC) correctly decided that a trademark may be transferred only with the goodwill to which it is attached, and rejected "the Board's determination that the assignment in this case was invalid because there was no transfer of the goodwill to which the mark pertained". (Appendix p. A-8). It found that both transferor (Alpha Beta) and transferee (VISA) used the mark on "the same basic service, namely providing a means by which the holders of the card could make purchases by check upon showing the card." (Appendix p. A-8-9). "The function the cards performed did not change when Alpha Beta assigned the mark and its related goodwill to Visa." (Appendix p. A-9).

The CAFC concluded its analysis: "In sum, Alpha Beta's assignment of the mark was not an assignment in gross, but was transfer of the check cashing service of Alpha Beta's business, i.e., a transfer of the mark and the goodwill to which the mark pertained". (Appendix p. A-10).

Petitioner does not challenge any of the findings of fact in the analysis by the CAFC, but draws inferences that simply are not supportable. Petitioner stipulated to the facts presented to the Patent and Trademark Office as summarized in the opinion below. One *cannot* infer that the CAFC "essentially held" (Petition p. 9) that form prevails over substance. Nor can one infer that "[t]he Court *in essence* held that trademark rights exist separate and apart from a business" (Petition p. 9, emphasis present). To the contrary, the CAFC held that trademark rights "are integral and inseparable" (Appendix p. A-6, 7). The argument of Petitioner is without substance.

The question posed in the Petition (page i) suggests that mere "priority" was sold, apart from the goodwill in the mark. In fact, the agreement recites the transfer of "all rights, title and interest in and to the said mark, all variations thereof, together with the goodwill of the business symbolized by the mark." This language encompasses both tangible and intangible assets, so the CAFC could not have required something less than a complete transfer of assets as stated in the Petition (p. 9).

Likewise, the question posed in the Petition is in error in saying "the transferee renders a different service". The facts of record support the finding that "the basic service offered by the assignor is offered by the assignee" (Appendix p. A-10).

In casting about for a federal question to present in its Petition, Section III quotes 15 U.S.C. § 1060. However, that statute, by its terms, requires either a federal trademark registration or an application. Here there is neither, since Alpha Beta never applied for federal protection of the mark. Rather, Alpha Beta chose the alternate state trademark protection route under California law. See *The Trademark Cases,* 100 U.S. 82 (1879). Alpha Beta registered the mark in California, and assigned the California registration under California Business and Professions Code § 14260, the controlling statute.

Consequently, there is no "great need for this Court to settle authoritatively" any federal statutory question (Petition p. 13). No recordation of the transfer of a federal registration was needed or even possible, since only a state registration existed. No federal statute or federal right is involved.

REASONS WHY THE WRIT SHOULD BE DENIED

1. There is no federal question

The assignment question must be determined under state law, not federal. The California state law is not in conflict with federal law. It is a straight-forward recordation statute that protects subsequent purchasers if a deed of assignment has not been recorded, just as deeds to real property have been recorded with governmental authorities for centuries.

The purchase and sale of property rights, whether real, personal, or intangible, and the recordation of those transfers represent such a common-place transaction that it need not burden this Court. Certainly, this transaction presents no federal question.

2. There is no conflict between Circuits

In this case, we have one of the first decisions of the CAFC. That court was created, in part, to do away with conflicts between geographically separated circuits. Limitation of subject matter jurisdiction, rather than geography, was intended to give consistency in those specialized areas assigned to the new court, including trademarks.

Petitioner admits (p. 9) that the CAFC "correctly recognized the essential principles of trademark law that trademarks are not separate property rights, trademarks are integral and inseparable elements of the goodwill of the business or services to which they pertain and a trademark may be transferred only in connection with the transfer of the goodwill of which it is a part". That ends the inquiry. There is no conflict with other decisions on the law.

The CAFC below held that "a valid transfer of a mark . . . does not require the transfer of any physical or tangible assets." (Appendix p. A-7). Petitioner fails to show that this holding is erroneous, but simply makes the bald assertion that it is *"in essence"* a holding "that the trademark rights exist separate and apart from a business" (Pet. p. 9, emphasis present). A going business is not tangible or physical assets, but the operation of them in a profitable manner. Nothing in the record supports a sug-

gestion that the transferor did not have a going business. Indeed, Petitioner complains that the going business of Alpha Beta continued after the assignment (Pet. p. 5). Consequently, all of the cases relating to a transfer "independently of a going concern or business" are not applicable (Pet. p. 11).

Petitioner argues (Pet. p. 11): "One of the decisions which cannot be reconciled with the decision below is that of the Eighth Circuit Court of Appeals in" *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285 (8th Cir. 1969). The court below did not cite that case relying instead upon *The Money Store v. Harriscorp Finance Inc.*, 689 F.2d 666 (7th Cir. 1982). The more recent Seventh Circuit case thoroughly analyzes all of the relevant cases on trademark assignments, including *Grapette*, and found them reconcilable.

Petitioner had the opportunity to *avoid* the nation-wide uniformity of the CAFC in cases within its limited jurisdiction. It could have opted for review of these administrative proceedings in the Patent and Trademark Office by a district court in Alabama, rather than the CAFC (*Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916) (Pet. p. 10). All Petitioner had to do was file a "notice with the Commissioner" under 15 U.S.C. 1071(b), and a decision by the CAFC would have been avoided.

Petitioner elected not to file such a notice, and acquiesced in review by the new CAFC with nation-wide jurisdiction. Having made its election to stay with the CAFC, Petitioner should not now be heard to cry "conflict between circuits" and at the same time admit the CAFC correctly analyzed the law.

3. There is no evidence of fraud

The administrative proceedings which were reviewed by the CAFC were tried by affidavits and documents. There was no testimony of any witness by deposition or in any other way. The Court below termed the contractual relationship between Alpha Beta and Visa an "apparently well-settled commercial practice" (Appendix p. A-11). From this record, there is nothing to suggest "confusion and deception" (Petition p. 14) arising from the transfer. On the contrary, the CAFC specifically found that "(n)either the Board nor Birmingham Trust has demonstrated that users of the Visa 'Check-O.K.' card would be confused or misled about the source, character, or nature of the services they would receive under the card." (Appendix p. A-10).

The hypothetical testimony at pages 15-17 of the Petition never took place, and cannot be inferred from the record. It is totally speculation. Respondent did *not* say, "We're not really interested in your mark". (Pet. p. 15). In fact, the very mark of Alpha Beta is the subject matter of the trademark application filed by Respondent, leading to this dispute. If Respondent were not interested in the mark, would it file an application to register it, claiming ownership?

No one said, "You're not really going to have to sell us any goodwill or anything else." (Pet. p. 16). On the contrary, all the record shows is a contract expressly selling the goodwill and "all rights" (Appendix p. A-4). Many years after this arm's length transaction, Petitioner, a non-party to the contract, tried to prove it fraudulent.

No one said, "We are doing everything possible to keep your mark separate from ours . . ." (Pet. p. 16). On the contrary, Petitioner filed an Opposition in the U. S. Patent and Trademark Office to the application of Respondent for "O.K." for "check-cashing privileges by means of a card". (Appendix p. A-2). The specimen illustrating how the mark was used was the Alpha Beta card. Respondent did not do "everything possible" to separate its mark from Alpha Beta's; it claimed to own the *identical* mark. The Petitioner's hypothetical testimony is dead wrong on the facts.

No one said, "You won't really sell your goodwill . . ." (Pet. p. 16). On the contrary, Alpha Beta thought it sold "the mark and the goodwill symbolized thereby" (Appendix p. A-4), Respondent thought it bought it, and the agreement says so. There is no evidence that the sale did not take place.

Petitioner's hypothetical testimony is tantamount to a charge of fraud. Had the testimony occurred, it would evidence an attempt to defraud the public as to the source of check approval services. No such evidence exists, and Petitioner makes no claim that it does. Charges of fraud and deception require strict proof and will not be lightly accepted. "Fraud is of course not presumed, but must be clearly established and the burden is on the person claiming it to overcome the natural presumption of fair dealing and honesty." 5 Am. Jur. *Proof of Facts* "Fraud", p. 365.

CONCLUSION

The wild speculation about what might be a "possibility" in some future case "[a]s a consequence of the Court's decision" below (Pet. p. 15), is not a basis for granting certiorari in this case. The present case was decided by the Court of Appeals for the Federal Circuit (and adhered to on reconsideration) on a point of trademark law within its special expertise and jurisdiction. The Petition should be denied.

Respectfully submitted,

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